

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON MAKHUDUTHAMAGA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Makhuduthamaga Local Municipality set out on pages xx to xx which comprise the statement of financial position as at 30 June 2012, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, the notes, comprising a summary of significant accounting policies and other explanatory information

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. The municipality did not review the residual values and useful lives of movable assets at each reporting date in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), GRAP 17, *Property, plant and equipment*. Included in the balance of property, plant and equipment is movable assets with a carrying amount of R7 766 091 (2011:5 429 356) as disclosed in note 4 of the financial statements whose residual values and useful lives were not assessed. Consequently, the impact on the carrying values on the property, plant and equipment and the corresponding effect on depreciation and accumulated surplus in terms of the General Recognised Accounting Practice GRAP 3- *Accounting Policies, change in accounting estimates and errors* could not be determined as it was impractical to do so.

Trade and receivables

8. I was unable to determine whether the municipality used objective evidence as required by the South African Statement of Generally Accepted Accounting Practice, IAS 39, *Financial Instruments Recognition and Measurement*, to calculate the debtors impairment included in the provision for debt impairment of R11 650 779 (2011: R 4 432 696) disclosed in note 8 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently I was unable to determine whether any adjustments were necessary to consumer debtors of R82 810 854 (2011: R42 007 052) as disclosed in the financial statements.

Commitments

9. No contract management system was in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and accuracy commitments amounting to R23 762 914 (2011: R10 858 706), as stated in note 28 to the financial statements.

Irregular expenditure

10. The municipality procured goods and services amounting to R 14 246 482 in contravention of the supply chain management requirements. The amount was not included in note 3 to the financial statements as required by section 32 of the MFMA. Furthermore, due to the inadequate implementation of an appropriate procurement and provisioning system, I was unable to obtain sufficient appropriate evidence that the irregular expenditure identified above and the amount disclosed in note 30 to the financial statements of R1 673 574 represents all the irregular expenditure incurred during the financial year under review.

Qualified opinion

11. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Makhuduthamaga Local Municipality as at 30 June 2012, its financial performance and its cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of MFMA and the DoRA.

Emphasis of matter

I draw attention to the matters below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

12. As disclosed in note 31 to the financial statements, the corresponding figures for the year ended 30 June 2011 have been restated as a result of an error discovered during 2012 in the financial statements of Makhuduthamaga Local Municipality at, and for the year ended 30 June 2011

Unauthorised expenditure

13. As disclosed in note 34 to the financial statements, the municipality incurred unauthorised expenditure of R903 612 as a result of overspending on its approved budget.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

14. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent

with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

17. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

Improvement measures in the annual performance report for a total of 69% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Measurability

Performance targets are not specific

18. The *National Treasury Framework for managing programme performance information* (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 21% of the targets relevant to Basic service delivery, Spatial rationale and LED were not specific in clearly identifying the nature and the required level of performance. This was due to the fact management was not aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Reliability of information

Reported targets not supported by sufficient appropriate evidence (validity, accuracy and completeness)

19. I was unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the actual performance reported in the annual performance report. This was due to a lack of a documented management information system and the directorates within the municipality not understanding how to report on targets and what type of portfolio of evidence is required.

Compliance with laws and regulations

20. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

21. The municipality did not establish a performance management system that was in line with the priorities, objectives, indicators and targets contained in its integrated development plan, as required by section 38(a) of the MSA.

Annual financial statements, performance and annual report

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, current liabilities and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
23. The municipality did not adopt implement a framework that describes and represents how the municipality's cycle and processes of performance planning monitoring, measurement review, reporting and improvement will be conducted, organised and managed, including determining the roles the roles of different role players as required by section 38,39,40 and 41 of the MSA read with regulation 7 and 8 of the Municipal Planning and Performance management Regulation 2001.
24. The annual performance report for the year under review does not include a comparison of the performance with set targets as required by section 46(1)(b) of the MSA.
25. The annual performance report for the year under review does not include a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(c) of the MSA.
26. The annual performance report did not contain the performance of each external service providers as required by section 46(1)(a)

Audit committee

27. A performance audit committee was not in place and the audit committee established in terms of the MFMA section 166(1) was not used for this function, as required by Municipal Planning and Performance Management Regulation 14(2)(a).

Internal audit

28. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14(1)(a).

29. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

30. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
31. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act (PPPFA)
32. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
33. Awards were made to providers or whose principal shareholders are persons in service of other state institutions, in contravention of SCM regulations 44. 8(1).

Expenditure management

34. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Revenue management

35. The accounting officer did not take effective and appropriate steps to timorously collect all money due to the municipality as per the requirements of section 97(b) of the MFMA.

Human resource management

36. The competency of financial and supply chain management were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on minimum competency level regulation 13.

INTERNAL CONTROL

37. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

38. Management does not always provide effective leadership to demonstrate commitment to integrity and ethical values, hence the incurrence of irregular expenditure.

Financial and performance management

39. The financial statements and other information to be included in the annual report are not reviewed for accuracy and completeness by the accounting officer.
40. Compliance with laws and regulations were not reviewed and monitored by the accounting officer.

Governance

The risk assessment procedures implemented by the municipality were not adequate, as all risks affecting the municipality were not identified

Auditor - General

Polokwane

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence